

DELAY AT OWN RISK

WHETHER IT IS INSURANCE, ESTATE PLANNING OR WEALTH ACCUMULATION, DECISIONS HAVE TO BE MADE EARLY

HEMANT BENIWAL

The pyramid of financial life can be divided broadly in three parts. The foundation is protection or risk management, in the middle is wealth accumulation and on top is wealth distribution.

INSURANCE

There are things beyond our control and we should be prepared for such untoward incidents and always be ready with a plan B. By the way, most people don't even have a plan A. But let me explain both.

Plan A: Everything goes well and one is able to fulfil his financial goals out of his regular income and investment.

Plan B: If something goes wrong, something that we can't foresee today, insurance takes care of our plan A.

So, insurance builds the foundation of financial planning for any family. Three of the most important policies that anyone should have are term plan, health insurance and accident insurance.

Term plan: Term policy is insurance in its purest and simplest form. You pay premiums because there is a guarantee that if something happens to you, your family will be paid out the pre-decided amount. Hence, you have peace of mind that even if you are not there, those loved ones you leave behind will not have to bear any financial loss. Term insurance is protection against risk of life.

Premium rises with age, so if you delay it for some years, your premium will be substantially higher. In case, you are diagnosed with some critical illness, either you will be denied insurance or your premium rate will be higher by 25 - 50 per cent. In case something happens to the bread winner in this period, the consequences

are beyond any explanation.

Health insurance: Today, one of the world's biggest problems is health care. This is getting expensive by the day. Even Indian doctors want to use the latest available technology and the downside of that is the huge associated cost. So, a health insurance policy can be really helpful.

The biggest problem is if you develop a disease in this period and then approach an insurance company. You will either be denied a policy or that disease will be excluded. Even if it is included, this would be done only after three to four years. You will have to keep praying the disease does not re-occur during the interim period.

Ask any friend whose family member was recently admitted in hospital - "what was the total cost?". There is a high probability the answer will give you a heart attack. If you survive, buy a health insurance policy the next day.

Accident insurance: Sometimes, life plays strange games. Think of

someone in the 30s, who loses legs or hands in an accident. From being the biggest asset of the family, he suddenly becomes an economic liability. A comprehensive accident policy can be really helpful at such times.

WEALTH ACCUMULATION

Now, moving to the second level, which every one appreciates is the most important part of their life. Let us assume you are 30 and have planned for retirement at 60 and would like to invest monthly. At 15 per cent annual return that one expects from equity mutual funds, you will come up with some astonishing numbers.

You have three options - invest ₹ 5,000 a month starting now or ₹10,000 a month when you turn 40 or save ₹30,000 a month in the last 10 years of your working life. The total investment in the final option will be double of first one. And the retirement corpus - in the first case, it will be ₹2.82 crore. In the second case, it will be ₹1.33 crore. In the last case, the accumulated amount will be just ₹79 lakh.

Say you calculate the amount the other way. Say you need ₹2 crore at the time of your retirement. Once again you have three options, starting at 30, 40 or 50. The

monthly investment when you start at 30 will be ₹3,551 and total investment will be ₹12.7 lakh. In the second case, the monthly investment needed will be ₹15,071 and total investment will be ₹36.26 lakh. And, if you start at 50, the figures are shocking - monthly investment will be ₹ 76,040 and total investment will be ₹ 91.2 lakh.

You can clearly see the cost of delay is huge. Due to the power of compounding, investments made in the initial years are the main chunk of your final corpus. The amounts required to compensate time delays are huge.

ESTATE PLANNING

Division of assets is a sensitive matter and people keep delaying it but there is again a huge cost of delay. People fail to write a will or even check the basic things like nominations and so on for investments. A sudden demise makes the lives of their families miserable. Smooth succession planning is a very important part of one's life.

So, don't delay important financial decisions and consult a good financial advisor now. Being casual about finances now will spell trouble in future. So act now. Like the NIKE slogan, 'Just do it'.

The writer is a certified financial planner

